

COMPETITION IN ILLINOIS RETAIL ELECTRIC MARKETS IN 2005

ILLINOIS COMMERCE COMMISSION

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Executive Summary

Sec. 16-120(b) of the Public Utilities Act (“Act”) directs the Illinois Commerce Commission (“Commission”) to submit an annual report to the Joint Committee on Legislative Support Services of the General Assembly and the Governor that provides information concerning the development of competitive electricity markets in Illinois. This is the sixth report the Commission has submitted to the General Assembly pursuant to this section of the Act.¹ This is the final Sec. 16-120(b) report that the Commission is required to submit to the General Assembly.

Sec. 16-120(b) requires the Commission to furnish certain statistical information concerning power and energy sales by electric utilities and by Alternative Retail Electric Suppliers (“ARES”) to customers eligible to select new electric suppliers. The Commission may also provide any other information the Commission believes is relevant in assessing the development of Illinois electric markets.

Retail Market Activities

The retail electric market opened in October 1999 to approximately one-third of non-residential consumption, comprising about 64,000 customers. On January 1, 2001, all non-residential customers of the investor-owned electric utilities became eligible to choose alternative suppliers. The number of eligible non-residential customers totals approximately about 500,000. An additional 4,440,000 residential customers became eligible for customer choice in May 2002.

Supply Options Available to Electric Customers

Customers have several supply options available to them from both the incumbent utilities and alternative suppliers. Customers may purchase bundled power and energy offered by the incumbent utilities at rates that are frozen until 2007. Customers may also choose to purchase power and energy on an “unbundled” basis by switching the generation portion of their electric service to an ARES or to an electric utility serving outside its traditional service area. (Collectively, the ARES and electric utilities serving outside their service areas are informally called “Retail Electric Suppliers” or “RESs.”) Additionally, the two utilities, AmerenIP and Commonwealth Edison (“ComEd”) that charge transition charges to delivery services customers must also offer an unbundled, market-based generation option called the “Power Purchase Option” (“PPO”) to non-residential customers. Electric utilities deliver unbundled power and energy at rates regulated by the Commission.

¹ Previous reports submitted to the General Assembly pursuant to Sec. 16-120 of the Act can be viewed at <http://www.icc.state.il.us/ec/electricity.aspx>. These reports include the triennial reports that were submitted pursuant to Sec. 16-120(a).

Delivery Services Switching Statistics

Here is a brief summary of switching activity during 2005:

- About 21,925 non-residential customers were taking delivery services at the end of 2005. There were about 950 fewer delivery services customers in 2005 than in 2004.
- About 4.5% of non-residential customers with a peak demand of less than one MW was taking delivery services at the end of 2005. About 28% of customer load in that demand category was taking delivery services.
- About 50% of customers with a peak demand of greater than one MW was taking delivery services. About 56% of customer load in the larger demand category was taking delivery services in December 2005.
- There was customer switching in the service areas of the Ameren Companies (AmerenCILCO, AmerenCIPS and AmerenIP) and Commonwealth Edison Company “(ComEd”) only. There was no switching in the service areas of the State’s four smallest service areas (Interstate Power & Light Company, MidAmerican Energy Company, Mt. Carmel Public Utility Company, and South Beloit Water Gas & Electric Company).
- No residential customer has switched to an alternative, although one supplier received certification from the Commission to serve residential customers.
- About 6.3% of ComEd’s non-residential customers were receiving delivery services at the end of 2005 (excluding Governmental customers and certain small-use customers). About, 5,530 customers were taking service from a Retail Electric Supplier and an additional 14,848 customers were receiving PPO service from ComEd. The total number of ComEd delivery services customers in December 2005 was virtually the same as the number of delivery services customers in December 2004.
- During 2005, the number of delivery services customers decreased by 80% in the AmerenCIPS service area and by 50% in the AmerenIP service area.
- Ten customers were taking service from Retail Electric Suppliers in the AmerenCILCO service area.

Power Purchase Option Sales

In 2004, about 35% of unbundled power and energy sales were PPO sales, a slightly higher percentage than in 2004. About 15,00 customers were taking PPO service at the end of 2005, an increase of about 5,000 customers compared to 2004. The growth in PPO service apparently occurred primarily as a result of customers switching from RES service to PPO service.

Retail Electric Supplier Activities

Twelve Retail Electric Suppliers sold power and energy to retail customers in 2005, two more than in 2004. Seven RESs were certified in 2005. There are now twenty RESs that have received certification to sell power and energy to retail customers. One RES was certified to sell to residential customers. RESs made sales in 2005 of about 24.8 million megawatt-hours ("mWh"). This total represents about 18.4% of all retail sales.

Peak Demand and Sales

The sum of the non-coincident peak demands of the nine investor-owned utilities totaled 29,812 megawatts. Peak demand increased at an annual rate of 1.3% between 1991 and 2005, but has remained basically constant since 1999.

Wholesale Market Activities

Both Ameren and ComEd continue to participate in their respective RTOs. Given that utility membership in RTOs may support Illinois' retail choice programs by providing access to price-transparent markets for both day-ahead and real-time energy, and some ancillary services, the Commission continues to focus its efforts in the Federal energy arena on improving the RTOs' operation of the energy grid and spot energy markets.

Both the retail rate freeze that is currently in effect and the wholesale power contracts that Ameren and ComEd have in place with affiliate and independent generators will expire by January 1, 2007. On January 24, 2006, the ICC approved proposals by both Ameren and ComEd to purchase power and energy through a competitive procurement processes. The Commission expects to spend a significant portion of 2006 implementing the auction process.

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I. Introduction

Sec. 16-120(b) of the Public Utilities Act requires the Illinois Commerce Commission to submit an annual report to the Joint Committee on Legislative Support Services of the General Assembly and the Governor describing the development of electric competition in Illinois. Sec. 16-120(b) requires the Commission to furnish certain statistical information related to sales by electric utilities, both inside and outside their service territories, and by Alternative Retail Electric Suppliers (“ARES”). The statutorily required information is supplemented with other statistical information to illustrate the extent of competition in Illinois retail electric markets.

The customer choice period, which began in October 1999 on a phased-in basis, required each electric utility to offer regulated delivery services to their customers to enable them to purchase power and energy from alternative suppliers. Electric utilities are permitted to charge transition charges to customers selecting delivery services, and those electric utilities that chose to charge transition charges are required to offer the market-based “Power Purchase Option” (“PPO”) generation service to non-residential customers. During 2005, only AmerenIP and ComEd imposed transition charges, and therefore only those two electric utilities offered PPO service. Approximately 4.4 million residential and 500,000 non-residential customers are eligible for delivery services.

Prospective electric suppliers must obtain certification from the Commission by meeting the certification standards set forth in the Public Utilities Act and applicable Commission rules.² By statute, any electric utility may sell retail electricity outside of its traditional service area. There are now twenty alternative suppliers that are eligible to serve retail customers. This total includes 19 suppliers that received certification from the Commission and one electric utility, MidAmerican Energy Company, which markets electricity to retail customers in other electric utility service areas.

The date of January 1, 2007, will mark the end of the “Mandatory Transition Period.” The existing rate freeze will terminate on that date, and utilities will no longer be permitted to impose transition charges. The Ameren Companies and ComEd will purchase power and energy for their customers using the “simultaneous descending clock auction” procurement method that was approved by the Commission in early 2006.³ The generation portion of customer rates will be set based on the results of the auctions.

² See Sec. 16-115 and 83 Illinois Administrative Code 451.

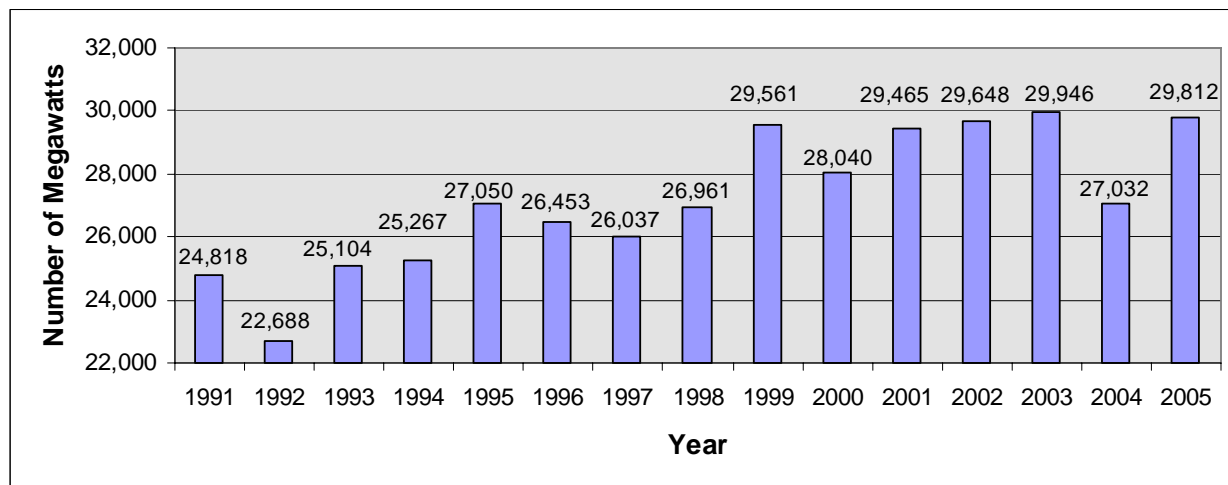
³ See Commission orders in Docket No. 05-0159 and Docket Nos. 05-0160, 05-0161, and 05-0162 (Consolidated).

II. Peak Demand and Sales by Electric Utilities and ARES

A. Peak Demand Statistics

Sec. 16-120(b) directs the Commission to present information concerning peak demand in the service territories of the investor-owned utilities. Figure 1 shows the level of non-coincident peak demand between 1991 and 2005. After the relatively cool summer in 2004, when peak demand dropped significantly from typical levels, peak demand returned to the levels that were common earlier in the decade. Peak demand has increased at an annual rate of 1.3% since 1991.

Figure 1: Illinois Investor-Owned Electric Utility Non-Coincident Peak Demand, 1991-2005 (Megawatts)



B. Sales by Electric Utilities and Alternative Retail Electric Suppliers

Sec. 16-120(b)(2) requires the Commission to collect and report data concerning the following:

The total annual kilowatt-hours delivered and sold to retail customers in the State of Illinois by each electric utility within its service territory, each electric utility outside its service territory, and alternative retail electric suppliers in the preceding calendar year.

Sec. 16-120(b)(3) requires the Commission to express the information collected in response to Sec. 16-120(b)(2) in percentage terms. The information in these two subsections provides an indication of the marketing success alternative suppliers have achieved since the retail market opened in October 1999.

The Commission gathered information concerning sales by the electric utilities and ARES to retail customers during 2004. This information is summarized in Table 1. Total sales by electric utilities include the following: (a) bundled electricity sales; (b) "Contract Sales," which include sales under Sec. 16-106 and Sec. 16-116 of the Act, sales under "special rate contracts" that were entered into prior to the December 1997 enactment of the 1997 restructuring law, sales to delivery services customers under the incumbent utilities' delivery services tariffs and sales under "Interim Supply Service";⁴ (c) PPO sales, including both "unassigned" and "assigned" sales; and (d) retail sales by electric utilities outside their service territories but within Illinois. All sales by ARES are retail power and energy sales.

By the end of 2005, Retail Electric Suppliers (ARES and utilities serving outside their services areas) were serving a significant fraction of the State's total electric consumption. The ARES' share of sales to all retail customers was about 22.0 million mWh, or 16.3% of retail sales. Sales by utilities operating outside their service territories were approximately 2.8 million mWh, or about 2.1% of all retail sales. Thus, sales by RESs equaled about 18.4% of all retail sales, a slightly lower figure than last year's 21%.

Table 1: Electric Sales by ARES and Electric Utilities in 2005

<i>Sellers</i>	Electric Utilities					ARES
<i>Sales Category</i>	<i>Bundled</i>	<i>Contract</i>	<i>PPO</i>	<i>Outside Territory</i>	<i>Total Utility</i>	<i>Retail</i>
<i>Sales (Million mWh)</i>	94.8	3.5	11.6	2.8	112.8	22.0
<i>Percent of All Sales</i>	70.4	2.6	8.6	2.1	83.7	16.3

⁴ Interim Supply Service ("ISS") is a tariffed short-term service available to delivery services customers who have no source of electric supply.

III. Retail Activity in 2005

This section of the report examines various indicators of the development of the Illinois retail electric market.

A. Retail Electric Supplier Activity

The list of eligible suppliers is comprised of Alternative Retail Electric Suppliers, which must obtain a certificate from the Commission prior to serving retail customers, and electric utilities serving outside their service areas, collectively called Retail Electric Suppliers or “RESs”.

Twenty RESs are listed on the ICC website as qualified alternative suppliers.⁵ Twelve RESs sold power and energy to retail customers in 2005, two more than in 2004.

The number of suppliers that made electric sales in each service territory between 2000 and 2005 is shown in Table 2. The table shows that the ComEd service area continues to attract more active marketers than the downstate service areas. However, some suppliers that served customers in the ComEd service area are also beginning to offer service in the Ameren service areas. The smallest service areas have seen only a negligible amount of marketing activity.

Table 2: Number of Active Retail Electric Suppliers (2000-2005), by Service Territory

Service Area/Year	2000	2001	2002	2003	2004	2005
AmerenCILCO	0	0	0	1	1	1
AmerenCIPS	3	2	4	5	5	4
AmerenIP	4	3	4	3	3	4
ComEd	8	7	8	8	8	9
MidAmerican	1	1	0	0	0	0
All Others	0	0	0	0	0	0

⁵ The list of certified Retail Electric Suppliers can be found on the ICC website at <http://www.icc.state.il.us/rl/library.aspx?key=Electricity&key=alt%20retail%20elec%20suppliers>.

B. Delivery Services Statistics

As shown in Tables 3 and 4, thousands of customers have switched from bundled service to delivery services. A significantly higher percentage of large-use customers (customers with a peak demand greater than one MW) than smaller-use customers (customers with a peak demand of less than one MW) were taking delivery services at the end of 2005. Over 64% of larger-use customers were taking delivery services, compared to 4.5% of smaller-use customers. The 64% delivery services figure represents an increase from 2004, when 61% of customers with a demand of greater than one MW were taking delivery services.

On a Statewide basis, the number of delivery services customers changed very little between 2004 and 2005, however, and the amount of customer load taking delivery services actually decreased. Delivery services levels were virtually constant in the ComEd service area, but dropped significantly in the AmerenIP and AmerenCIPS service area. About 40% of non-residential load was receiving delivery services at the end of 2005, a decrease from last year's percentage of 48%.

As of December 2005, 21,229 ComEd customers were either taking service from a RES or service from ComEd under the PPO, almost exactly the number of delivery services customers as in 2004.⁶ Customers representing about 48% of ComEd's non-residential load were taking delivery services by the end of the year, a slightly smaller percentage than the December 2004 level of 52%.

In the AmerenIP service territory, 595 customers were taking delivery services, about 60% of last year's total. There was also a large decrease in delivery services activity in the AmerenCIPS service area. As of the end of December 2005, 71 customers were receiving service from RESs in the AmerenCIPS service area, a decrease of more than 80% (AmerenCIPS does not offer the PPO).

Ten customers (eight customers with a demand under one MW and two with a demand greater than one MW) were taking service from RESs in the AmerenCILCO service area. No residential customers, or customers in any of the other service areas, were taking delivery services at end of 2005.

⁶ The total number of delivery services customers excludes the 74 Governmental customers and three "Other" customers that were taking delivery services at the end of 2005.

Table 3: Non-Residential Customer Switching in 2005

Utility / Demand Level	Number of Customers Eligible for Delivery Services		Number of Customers Switched to Delivery Services ⁷	
	Less than 1 MW	Greater than 1 MW	Less than 1 MW	Greater than 1 MW
AmerenCILCO	23,588	93	8	2
AmerenCIPS	55,987	185	63	8
AmerenIP	65,056	267	527	68
ComEd ⁸	337,317	1,636	20,027	1,222
All Others	5,758	124	0	0
Total	487,706	2,305	20,625 (4.2%)	1,300 (56.4%)

**Table 4: Non-residential Customer Usage Switched to Delivery Services in 2005
(Million kWh)**

Utility / Demand Level	Usage Eligible for Delivery Services		Usage Switched to Delivery Services	
	Less than 1 MW	Greater than 1 MW	Less than 1 MW	Greater than 1 MW
AmerenCILCO	1,639	2,629	1	786
AmerenCIPS	3,533	5,255	98	675
AmerenIP	4,806	8,213	540	4,381
ComEd	28,799	30,952	10,554	18,342
All Others	554	746	0	0
Total	39,331	47,795	11,192 (28.5%)	24,184 (50.6%)

C. Delivery Services Customer Supply Selections

Tables 5 and 6 display the number of customers and the amount of load that have switched to either RES supply or PPO service. Table 5 indicates that more than twice as ComEd delivery services customers (14,848) were taking service from ComEd under the PPO than were taking service from RESs (5,530). The number of ComEd PPO customers grew by about 56% in 2005, but there was a drop of almost equal magnitude in the number of RES customers. The RES' share of delivery services load in the ComEd service area dropped from about 68% in 2004 to about 61% in 2005.

⁷ Includes customers taking Interim Supply Service.

⁸ Does not include Governmental or "Other" customers.

The increase in the number of ComEd PPO customers, seemingly at the expense of RES supply service, may be primarily due to the significant increase in wholesale electric prices during 2005.⁹ RESs often act as agents for their customers, which enables them to place their customers on the most favorable supply option. When wholesale prices are rising, the most advantageous rate is often the PPO rate. By enrolling their customers on PPO service, the RESs can, in effect, purchase supply from ComEd at a relatively low rate, and resell the PPO power to their customers.

Since AmerenCIPS does not offer the PPO, the few RESs operating in that service territory do not have the option of purchasing PPO supply from AmerenCIPS. Thus, due to the general wholesale rise in electric prices 2005, bundled rates may have been than market rates, making it difficult for suppliers to offer rates lower than bundled rates. As a result of the rise in market prices, hundreds of AmerenCIPS customers returned to bundled service in 2005. There were 71 customers taking RESs supply service at the end of 2005, compared to 447 at the end of 2004, a decline of about 84%.

PPO service continues to be the most popular delivery service in the AmerenIP service area, but the number of PPO customers dropped from 979 to 232 in 2005. Part of the reason for the decline may be that rising market values made many former PPO customers ineligible for the PPO, as PPO eligibility depends on the existence of positive transition charges. Another reason may be that the level of marketing activity in the AmerenIP service area declined, as at least one formerly active RES ceased operating in that service area.

The Commission has noted in previous reports the importance for the long-term development of a competitive retail market of customer movement from bundled service and PPO service to service from RESs. After 2006, the PPO will likely not be a supply option that will provide customers a discount to the bundled rate. Rather, the PPO apparently will be priced at the same rate as bundled service. Thus, the thousands of current customers that wish to receive a better rate than the bundled rate after 2006 may have to switch to RESs. Since many, or perhaps most, PPO customers already have contracts with RESs, a switch to RES service may be just a formality. The choice of whether to jump to delivery services may be a more difficult one for those PPO customers who are not RES customers. These customers may have chosen the PPO because they preferred to remain with the utility rather than contract with a third-party supplier. Growth in customer choice may depend on whether the former PPO customers return to RES service after 2007, or continue taking utility service.

⁹ For example, the simple hourly average system LMP for 2005 in the PJM region was 37.0 percent higher than the 2004 average. See the 2005 "State of the Market Report," from the PJM Market Monitoring Unit, dated March 8, 2006.

Table 5: Number of PPO and Retail Electric Supply Customers (December 2005)

Utility / Demand Level	Number of PPO Customers		Number of RES Customers	
	Less than 1 MW	Greater than 1 MW	Less than 1 MW	Greater than 1 MW
AmerenCILCO	NA ¹⁰	NA	8	2
AmerenCIPS	NA	NA	63	8
AmerenIP	288	40	140	19
ComEd	14,387	461	4,920	610
All Others	NA	NA	0	0
Total	14,675	501	5,131	639

Table 6: Usage Switched to Retail Electric Suppliers and PPO Service (December 2005)¹¹

Utility / Demand Level	Amount of Usage Switched to PPO Service (Million kWh)		Amount of Usage Switched to RES Supply (Million kWh)	
	Less than 1 MW	Greater than 1 MW	Less than 1 MW	Greater than 1 MW
AmerenCILCO	NA	NA	1	786
AmerenCIPS	NA	NA	97	675
AmerenIP	313	908	98	3,874
ComEd	5,631	4,318	3,854	11,391
All Others	NA	NA	0	0
Total	5,944	5,226	4,050	16,726

D. Residential Market Activity in 2005

The Commission approved one ARES certification application to serve the State's approximately 4.4 million eligible residential customers.

¹⁰ "NA" indicates that PPO service is not offered in the service territory.

¹¹ Does not include Interim Supply Service usage.

IV. Wholesale Market Activities

A. ComEd and Ameren Continue to Participate in their Respective RTOs

As the Commission has noted in previous reports to the General Assembly, a transparent, regional competitive wholesale market is a prerequisite for the State's retail choice program to provide significant benefits to retail customers. Accordingly, the Commission continues to focus its efforts in the Federal electricity arena on the development and improvement of PJM and the Midwest ISO's operation of the transmission grid and spot energy markets.

With the Midwest ISO launching its energy markets on April 1, 2005, both PJM and the Midwest ISO employ security-constrained economic dispatch of generation resources to manage congestion and balance generation and load.¹² Both RTOs operate price-transparent markets for day-ahead and real-time energy. PJM also operates markets for capacity and some ancillary services. The Midwest ISO is in the process of developing markets for capacity and ancillary services.

While both RTOs are operating markets, an inter-RTO seam runs between the territories of both ComEd and Ameren. Unfortunately, efforts to develop a common market between PJM and the Midwest ISO have stalled. The lack of progress on a single common market gives the Commission concern, as a common market has the potential to provide significant benefits to retail customers in Illinois.

B. 2005 Procurement Proceedings

The rate freeze that is currently in place expires at the end of 2006. At that same time, the wholesale power contracts that Ameren and ComEd have in place with affiliate and independent generators will expire. In early 2005, the Ameren Companies and ComEd submitted petitions to the Commission for approval seeking permission to purchase power for their bundled customers using a auction-based procurement method known as a simultaneous descending clock auction or "reverse auction." Under these proposals, which were approved by the Commission with some modifications on January 24, 2006, prospective suppliers will offer bids to serve a specified portion of each utility's load under yearly or multiple-year contracts. The auctions are expected to take place in early September 2006 for the supply period beginning on January 2, 2007. The Commission expects that a significant portion of 2006 will be spent preparing and implementing the auction process.

¹² Security-constrained economic dispatch requires the RTO to choose the least-cost combination of resources offered by bidders, consistent with reliable operation of the transmission grid

V. Conclusion

Customer choice has become an integral part of the electric utility landscape in Illinois, particularly in the State's four largest service areas. Retail Electric Suppliers are now serving about 18% of all retail load in the State. The termination of the mandatory transition period on January 1, 2007, moreover, may give a boost to competition, for at least two reasons. First, the existing bundled retail rate freeze will expire and RESs may find it easier to compete against higher current market prices rather than bundled rates that were frozen in 1997. Second, utilities will no longer be permitted to charge transition charges, which will provide additional savings opportunities for customers in the AmerenIP and ComEd service areas, the State's two largest service areas, and the two service areas that have had the most switching activity.

Despite the successful foundation that has been laid during the mandatory transition period, the Commission is concerned that the benefits of customer choice have not yet reached the smallest-volume customers to the same degree that it has benefited larger-volume customers. The delivery services switching rate among customers with a peak demand greater than one MW is 61%, but for non-residential customers with a peak demand of under one MW, the delivery services switching rate is less than 5%.

Another concern is that a major part of the growth in customer choice is due to the existence of the Power Purchase Option. About 15,000 of the approximately 22,000 unbundled delivery services customers are taking PPO service. Whether customer choice will continue to grow depends to a great extent on PPO customers opting for service from RESs rather than switching back to utility service.

Retail competition also lost ground in 2005 in the Ameren service areas, as a large percentage of delivery services customers switched back to bundled service in the AmerenIP and AmerenCIPS. Part of the reason for the number of customers switching back to utility service may be due to the difficulty that RESs had difficulty in competing against frozen bundled rates in 2005. This problem will no longer be an issue for RESs after 2007 when the rate freeze terminates.

In early 2006, the Commission approved the simultaneous descending clock auction methodology for power procurement that was proposed by the Ameren companies and ComEd for their bundled power purchases after 2006. The customers that are not served by RESs will receive rates that are derived from the auctions.